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City of Petaluma

Petaluma, California

Report to City Council and Management

For the year ended June 30, 2008

Mgt. Ltr. 5/15/09

C&L
Caporicci & Larson
Certified Public Accountants

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April 9, 2009

To the Honorable Mayor and Members of the City Council
of the City of Petaluma
Petaluma, California

In planning and performing our audit of the financial statements of the City of Petaluma, California (City) as of and for the year ended June 30, 2008, in accordance with generally accepted auditing standards in the United States, we considered the City's internal control over financial reporting (internal controls) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as noted in the following pages, we identified certain deficiencies in internal control that we consider to be control deficiencies, significant deficiencies, and material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

This communication presents control deficiencies that were identified during our 2008 audit and we consider these deficiencies to be significant deficiencies.

This communication is intended solely for the information and use of City Council, management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

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SIGNIFICANT DEFICIENCIES

SINGLE AUDIT EXPENDITURES

Finding

In accordance with the Basic Guidelines section of OMB's, all Federal grants must be reported on the City's Single Audit Reports in the year the expenditures were incurred. During our performance of the audit, we noted that the expenditures under the U.S. Department of Transportation, Federal Highway Assistance Program, CFDA Number 20.205, in the amount of 932,878 incurred in the fiscal year 2006-2007, were not reported on the Schedule of Federal Awards Expenditures for the year ended June 30, 2007.

Recommendation

We recommend that the City maintain sufficient control over all Federal awards to ensure the accuracy and completeness of the amounts reported on the Schedule of Expenditures of Federal Awards.

Management Response

The City will more closely monitor all dates of reimbursement claims and their corresponding federal expenditures for timeliness of reporting. Additional communication will be initiated with program staff if claims are not submitted for an extensive period of time.

FARE BOX RATIO

Finding

The TDA is defined in Chapter 4 of the California Public Utilities Code commencing with Section 99200. The Petaluma Transportation Enterprise Fund is subject to TDA provisions requiring the calculation of and adherence to fare and local support ratios for TDA transit funding. Accordingly, the City's Transportation Enterprise Fund must maintain a minimum fare ratio of 10%. The Fund's fare ratio of operating revenues to operating expenses for the years ended June 30, 2008 and 2007, indicate the City is not compliance with the provisions of the TDA for the year ended June 30, 2008, however was in compliance for the year ended June 30, 2007.

	2008	2007
Operating revenues:		
Fare revenues	$ 170,493	$ 151,286
Advertisement space revenues	31,309	34,037
Total operating revenues	$ 201,802	$ 185,323
Operating expenses	$ 2,505,153	$ 1,910,915
Less: depreciation expense	(291,721)	(172,089)
Applicable operating expenses	$ 2,213,432	$ 1,738,826
Fare ratio	9.1%	10.7%

Recommendation

It is recommended that the City review the transit operations and prepare a proposed plan in how they will meet the 10% fare box ratio requirements as required by the TDA provisions.

Management Response

The City's Transit staff will address the TDA 10% farebox ratio compliance requirement through expense reductions and may consider a fare increase. Already, the Transit staff is finding the current economic situation and the accompanying loss of both TDA and STA revenues requiring a reduction in the agency's service hours. Ideally this reduction should occur without a loss in ridership. The Transit staff is also considering a major route restructuring with shorter more frequent routes and timed transfers in addition to increases in the base fare (currently $1.00) to align with the $1.25 local fare charged by neighboring transit agencies. No changes to the frequent rider discounts will be proposed to encourage increased ridership. These plans are currently in the preliminary discussion stage: Any fare or service changes will require significant public outreach and approval by the City Council. Either the 25% percent fare increase or a reduction in costs of $200,000 (which is consistent with the expected revenue loses) will achieve the required 10% farebox ratio.